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News Release

Immediate release

Ottawa, November 16, 2004
2004-069

Economic and Fiscal Update: Stronger Growth and Balanced Budgets for Canada

Stronger economic growth, balanced budgets and improved management of taxpayer dollars were the main messages delivered today by Minister of Finance Ralph Goodale in his first Economic and Fiscal Update presentation to the House of Commons Standing Committee on Finance.

Mr. Goodale said that, based on forecasts by private sector economists, economic growth is expected to be 3 per cent in 2004, which is higher than forecast in the March 2004 budget. For 2005, private sector economists expect growth of 3.2 per cent.

The Minister highlighted the Canadian economy's resilient recovery from a number of shocks last year such as SARS and BSE. "Because Canada's fiscal house was in order and our underlying fundamentals were strong, we were able to get through last year's shocks and rebound more successfully than many of the experts had dared to expect," he said. He added that Canada's economy has created nearly 400,000 new full-time jobs in the last 14 months.

The Minister also reiterated the Government's commitment to keeping budgets balanced or better, a commitment backed by an annual \$3-billion Contingency Reserve and additional economic prudence. He announced the following surplus projections for this year and the next five years:

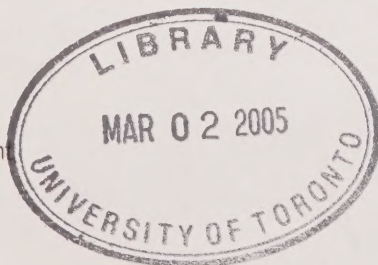
- 2004-05: \$5.9 billion;
- 2005-06: \$500 million;
- 2006-07: \$900 million;
- 2007-08: \$3.2 billion;
- 2008-09: \$7.5 billion; and
- 2009-10: \$11.5 billion.

The surplus projections announced today take into account the Contingency Reserve and additional prudence. They also include the cost of the recent agreement on health care, the new framework for equalization and Territorial Formula Financing, and other spending decisions made since the last budget, primarily for assistance to the cattle and beef industries.



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The Minister explained further that these figures do not include any savings from the Government's expenditure review process, which should be completed in time for the next budget, saying that the Government must plan on the basis of "money we know we will have, not simply with money we hope we will have."

These projections have been developed by four leading economic forecasting agencies in Canada, based on assumptions obtained from a survey of 18 private sector economists.

This year's Update includes the following new features to further enhance transparency:

- Annex 3 includes the individual projections of the budgetary balance from the four forecasting organizations, as well as the average; and
- Annex 4 provides the details of how the private sector fiscal projections, which were prepared on a National Accounts basis (the accounting system used by Statistics Canada and the Organisation for Economic Co-operation and Development), are translated to a Public Accounts basis, the accounting system used by the Government to present the budget.

Mr. Goodale said that since the budget deficit was eliminated in 1997, Canada has ranked first among all Group of Seven (G-7) countries for growth in living standards, with the average standard of living rising faster in the past 7 years than in the previous 17.

The Minister contrasted Canada's present success with the economic and fiscal problems of a decade ago. "With seven consecutive federal surpluses now under our belts, the old vicious circle of economic failure has been replaced by a virtuous circle of sustained economic success—further declining debt, a solid credit rating, low interest rates, lower taxes, remarkable economic growth, and the best employment record in the G-7," he said.

Looking to the future, the Minister pointed out that Canada must continue its efforts to meet the challenges faced by an aging population, which will increase demand for health care and other social services and increase Canada's reliance on productivity gains to ensure continued growth in the country's standard of living. This is why the Government has set an objective to reduce federal debt as a percentage of gross domestic product to 25 per cent within the next 10 years. At the same time, the Government will implement policies to build an economic environment that fosters greater innovation, productivity and international competitiveness to generate the wealth the country will need to face those additional pressures.

Annexes to the 2004 Economic and Fiscal Update and other related documents are available on the Department of Finance Canada Web site at www.fin.gc.ca.

For further information:

David Gamble
Public Affairs and Operations Division
(613) 996-8080

Pat Breton
Press Secretary
Office of the Minister of Finance
(613) 996-7861

www.fin.gc.ca

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